



Memorandum # 24/2002

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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MEMORANDUM

TO: All Retirement Boards
FROM: Joseph E. Connarton, Executive Director
RE: Local Government Early Retirement Incentive Program
DATE: May 24, 2002

Chapter 116 of the Acts of 2002 establishes a local option to allow cities, towns, counties, authorities and districts to offer an Early Retirement Incentive Program (ERI) for eligible employees. The bill was signed by Governor Swift on May 15, 2002 and became effective on that date. The purpose of this Memorandum is to provide guidance and assistance to the Retirement Boards who will be required to administer the law. Retirement boards can adopt supplemental regulations as necessary to administer the Act. Please feel free to share this Memorandum with the Legislative and Executive Authorities in the governmental unit(s) in your system.

Local Option Acceptance

In order to establish an ERI under the Act, a city, town, county, authority or district must accept the provisions of Section 1 of the Act by a vote of:

- (1) the Legislative Authority; and
- (2) the Executive Authority

Each governmental unit within the system has the ability to accept the Act.

In a city, the Legislative Authority is the City Council; in a town, the Town Meeting or Town Council as appropriate; in a county, the County Advisory Board or County Commissioners as appropriate; in an authority, the governing board of the authority; in a district, the district meeting; and in a regional school district whose employees are members of the State Retirement System, the Regional District School Committee.

In a city, the Executive Authority is the Mayor; in a town, the Selectmen; in a county, the County Commissioners; in an authority, the governing board of the authority; in a district, the district meeting; and in a regional school district whose employees are members of the State Retirement System, the Regional District School Committee.

The Selectmen of a town may call a special town meeting on their own volition and must call a special town meeting upon the request in writing of 200 registered voters or 10% of the registered voters in town, whichever is less. At least seven days notice must be given of the special town meeting and the special town meeting made upon submission of signatures must be held no more than 30 days after the Selectmen's receipt of the request.

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If the Town Meeting or Town Council fails to accept the Act by June 30, 2002, the Board of Selectmen can accept the Act on behalf of the town without the Town Meeting or Council's approval.

It is not necessary for the retirement board to accept the Act in order for it to become effective. The Legislative Authority and the Executive Authority must accept the provisions of the Act on or before November 1, 2002.

Eligibility of Employees to Participate

In order to be eligible to participate in an ERI a city, town, county, authority or district that has accepted the provisions, an individual:

- must be an employee of the city, town, county, authority or district and an active member in service of the appropriate city, town, county or regional retirement system or shall be an employee of a regional school district and an active member in service of the State Retirement System on the date of the city, town, county, authority or district, or regional school district's acceptance of Section 1 of Chapter 116 of the Acts of 2002; and
- must be eligible to receive a superannuation retirement allowance in accordance with G.L. c. 32, § 5(1) or G.L. c. 32, § 10(1) on the effective retirement date specified in his or her written retirement application to the retirement system; and
- must have filed a written application with the applicable retirement system as described below; and
- must be classified in Group 1, Group 2 or Group 4 for retirement purposes.

Eligibility for participation in the ERI must exist prior to the addition of the additional years of age and/or service granted by the ERI. A member may use creditable service purchased for military service pursuant to G.L. c. 32, § 4(1)(h) to meet the eligibility criterion of the Act if the buyback is complete on the effective date of retirement.

Employees who were eligible to participate in the Judiciary ERI, State Employees who were eligible to participate in the State ERI and teachers who are members of the Teachers' Retirement System or the Boston Retirement System are not eligible to participate in this ERI.

Eligible employees of a city, town or county retirement board may participate in the ERI, if the city, town or county legislative authority and Executive Authority accept the provisions of Chapter 116 of the Acts of 2002. In a regional retirement system for the purpose of accepting the Act for employees of the regional retirement board, the Legislative and Executive Authority is the regional retirement board.

An eligible employee who retires and receives an additional benefit in accordance with the ERI shall be deemed to be retired for superannuation and shall be subject to all of the provisions of

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G.L. c. 32, except for the provisions of G.L. c. 32 which require employees classified in Group 2 to have attained age 55 on the date of termination of service in order to receive a Group 2 benefit. Any employee eligible for the ERI who is classified in Group 2 and who is at least 50 years of age but not yet 55 years of age, shall be eligible for a retirement allowance equal to that proscribed for a member classified in Group 2 upon the application for the additional benefit.

Age and Creditable Service Enhancements and Limitations

An eligible participant's retirement allowance shall be calculated in accordance with the provisions of G.L. c. 32, § 5 using the member's age and creditable service at the time of retirement, increased by adding up to: five years of age or five years of creditable service, or a combination of age and creditable service, the sum of which shall not be greater than five years. Only whole years of age or creditable service may be used for the additional age or creditable service provided by the Act.

The Executive Authority may limit additional credit for age and service or the combination of age and service that will be offered. The Executive Authority can also limit the total number of employees who can participate in the ERI or the total number of employees within each Group Classification who can participate in the ERI and thus the Executive Authority may exclude an entire Group from participation in the ERI. If participation is limited, the retirement of employees with greater years of creditable service shall be approved before approval will be given to those with lesser years of creditable service. When determining which employees have the greater amount of creditable service, all creditable service is to be considered, including creditable service for employment in another G.L. c. 32 retirement system. In no event may the sum of the years of creditable service and age added by the Act total more than five years.

Veterans who add years of creditable service using the Act are entitled to \$15/year on that added creditable service under G.L. c. 32, §5(2)(b) up to the maximum of \$300.

Application Dates and Effective Dates of Retirement

Eligible employees may file applications for retirement under the ERI no later than a date that the Executive Authority determines, but no earlier than May 15, 2002 and no later than December 2, 2002. The effective date of all such retirements shall be determined by the Executive Authority and shall be no later than December 31, 2002.

The effective date of retirement for employees of a city or town Retirement Board shall be thirty days after the retirement date for city or town employees as determined by the Executive Authority. The effective date of retirement for employees of a County Retirement Board or a Regional Retirement Board shall be January 30, 2003. The Executive Authority must set one retirement date for all employees receiving incentives under the Act, except for employees of the retirement board as discussed above.

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PERAC Analysis of Costs

PERAC will calculate the final cost for each system accepting the ERI. The report is due to be filed with the board by December 31, 2003.

PERAC will assist boards in estimating the potential impact of the ERI. We will be providing more detail with respect to performing this analysis at our seminars.

Alternatively, boards could seek the assistance of a private actuary to estimate the costs of the ERI. Several systems have asked whether the legislation requires PERAC to calculate the final liabilities or could a system rely on the work of a private actuary. Our interpretation of the legislation is that we could review costs calculated by other actuaries and reference those costs in our report.

Funding Schedules

The law states that a system accepting the ERI provisions must revise its funding schedule to reflect the additional liabilities. Unlike the 1992 ERI, which required the additional liability be paid over 15 years, this legislation has no such requirement. We believe the 15-year amortization period is still a reasonable methodology. It also may be reasonable to amortize the additional liability in the same manner as the current funding schedule depending on the amount of the additional liability, the plan's funded status and the plan's funding schedule. Ultimately, the methodology used will be determined on a case-by-case basis.

It is important to note that the increase in cost for a governmental unit accepting the ERI, will be the responsibility of only that governmental unit and will be reflected in the System's funding schedule and the allocated appropriation.

Other Provisions of Chapter 116 of the Acts of 2002

Chapter 116 of the Acts of 2002 contains other provisions relevant to G.L. c. 32.

Creditable Service for Certain Unpaid Elected Officials

Section 4 of the Act amends G.L. c. 32, § 4(1)(o) which allows creditable service for unpaid selectmen, alderman, city councilors or school committee members elected as the result of election by direct vote of the people. The Act changes the date that such elected officials must have been first elected from before 1/1/76 to before 1/1/86. Such elected officials must still pay into the annuity savings fund the amount which they would have contributed had they been paid \$2500 per year, plus regular interest to the date of payment.

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First Member/Chair of Regional Retirement Boards

Section 5 of the Act amends G.L. c. 34B, § 19 which deals with the term of the first member/chair of the regional retirement boards. The Act changes the term of the first member/chair of regional retirement board from three to six years. After the expiration of the term of elected Treasurer, the other retirement board members elect the first member/chair for a six year term.

Amendment to Military Service Credit (G.L. c. 32, § 4(1)(h))

Section 6 of the Act amends Chapter 71 of Acts of 1996 to allow veterans who did not elect to purchase military service credit another 180-day opportunity to purchase that service. This provision requires a separate vote from the ERI and the local legislative body, which approves this provision, may be different from that which approves the ERI. The local legislative body may vote once to reopen the window for 180 days for veterans to purchase military service credit. In a town, the local legislative body is the town meeting; in a city, the city council; in a county, the county commissioners; in a district, the district members; in an authority, the governing body of the authority; and in a regional retirement system, the regional retirement advisory board. There is no vote by individual towns in a county or regional system. The Act does not change the requirements that members qualify as veterans as defined in G.L. c. 32, § 1 and have at least ten years of creditable service.